

Nadeau-Drillen, Karen

From: Savoy, Theresa
Sent: Friday, July 17, 2009 3:50 PM
To: Peoples, RepAnn (FWD); Bill Browne; Harlow, RepCharlie (FWD); CHAS THERIAULT ; Dennis Damon; Doug Thomas; Ed Mazurek; George Hogan; Joe Perry; Rosen, RepKimberley (FWD); Carey, RepMichael; Richard Cebra; Theriault, RepCharles; Walter Gooley
Cc: Roy, Suzanne; Nadeau-Drillen, Karen; Van Note, Bruce
Subject: FW: Thomas Questions and DOT Answers
Attachments: House R Transportation Questions-6-2-09.doc

Transportation Committee Members:

Below is an e-mail from Bruce Van Notre answering a series of questions that Rep. Thomas posed to the Maine DOT as well as a document that Bruce put together for House R's back during the session. We wanted to ensure that you all received these and we hope they will be helpful as you continue your work this summer.

Please excuse any duplicate e-mails.

Theresa

From: Van Note, Bruce
Sent: Friday, July 17, 2009 2:55 PM
To: 'firewood@tds.net'
Cc: Cole, David A; Dennis Damon; 'Edward J. Mazurek'; Doyle, Karen
Subject: FW: Thomas Questions and DOT Answers

Rep. Thomas,

Below you will find the answers to your e-mail questions below. Your questions are shown in black, and our answers are shown in blue. Also, for further background, we have attached questions and answers on similar topic that your caucus (I believe Sawin Millett) posed towards the end of the session, which I believe were distributed to your caucus members.

What the debt service for current Transcap Bonds?

The estimated debt service for the three TransCap revenue bond issuances that have or will take place this year will be about \$18.6 million annually. These three TransCap bond issuances are as follows: \$50 M for Highway reconstruction issued in November 2008, \$105M for bridges issued this month, and \$30M for 10 year highway projects to be issued this fall.

Looking forward, in July 2011, we anticipate issuing the remained for the bridge bond, hopefully in the amount of \$55 M if revenue streams do not erode. That will bring annual debt service to about \$23.5 million.

What's projected revenue going into Transcap?

The projected revenues going into TransCap is an estimated \$37.5 million in FY10. The difference between projected revenue and debt service, about \$19 M in FY 11, will be used first to fund reserves required by the bond indenture, then for projects having an estimated useful life of at least 10 years pursuant to LD 951 (PL2009, chapter 411), which was unanimous out of Committee. Accordingly, it cannot be used for Maintenance Surface Treatment (MST) paving.

Can more bonds be issued from Transcap and what is the process?

The Legislature can do what it thinks best, whether it would be prudent to issue more TransCap bonds depends upon revenue streams, bond issuer requirements, and interest rates. Currently, the Legislature has approved \$240 million of TransCap bonding. All TransCap bond issuances require specific Legislative authorization. Further, the bond indenture typically requires that TransCap revenues be more than two times the debt service. This was done in an effort to get the lowest interest rate possible by having a rating in the AA category. With more bonding, interest rates would likely be

7/29/2009

higher. We are working with the Bond Bank to see what possibilities there are for ways to structure a bond sale that would be most advantageous to the State. The process would involve communicating with the Maine Municipal Bond Bank how much more bonding the Legislature desires, and evaluating the impacts. Of course, this will not resolve the MST problem, as the useful life of MST is less than the bond term.

Where is the money going from the Bonds that will voted on in Nov. if they're approved?

This will be used to support the Work Plan that was presented to the Committee in March, modified to reduce the level of multimodal projects that were included in the bond package. Again, the estimated useful life of projects supported by the bond should be at least 10 years (the bond term).

How many employees took early retirement and what is the savings?

Though a dynamic number, Human Resources tells us that currently 32 DOT employees have expressed an interest in the retirement program. There will undoubtedly be more people to identify their interest between now and August 15th. They have not determined if all of these individuals are indeed eligible or which date they will choose. This could generate Highway Fund savings (and less work) of about \$1.8 million. Given that most of these are front line workers, we are concerned about operational impacts of significantly more retirements given that MaineDOT has almost 200 fewer positions than it did 5 years ago. That is, this situation is likely not sustainable.

Do we have projects paid partly by the Federal Government that qualify for Transcap funding of the state share that we are currently using cash to pay the state share?

We have already planned to use TransCap as matching funds on federally eligible projects. In this regard, note that the total state Highway Fund cash for capital projects is only \$4.1 million for the entire biennium, and experience shows that falling revenue projections may impact this amount. That is, there's only about \$4 million of capital cash now, and it might be gone later.

How many miles of the canceled paving projects were "built" roads? The MST paving program is targeted at "unbuilt" roads. However, some unbuilt Collector corridors do contain short built sections, and in some cases it is more efficient and cost-effective to continue MST over those rather than program a separate capital project to address pavement deficiencies.

How do we get some of the built roads north of Augusta paved? (Those should be projects that last more than 10 years. Good examples are the road from Guilford to Greenville, and Route 7 from Dexter to Dover.) The Paving Preservation Program (PPP) is targeted at built roads, and we agree that we should be addressing them as well. The 10-11 Work Plan calls for about \$87 million on PPP projects. Obviously, if a new project is added (like the roads you list), something else won't get done. As you know, there are many examples of needs all across the State which far exceed the available resources.

Let me know if you have any further questions or concerns.

Bruce

TRANSPORTATION BUDGET QUESTIONS

1. ***How much money remains in the Trans Cap Fund mechanism for the Bridge and Highway Construction bonds, and any other sources? What is the draw down schedule and use plan(s) for the remaining years?***

For background information on the creation, purpose and use of the TransCap Trust Fund at the Maine Municipal Bond Bank, see attached Fact Sheet prepared for the Senate Republican caucus. More specifically, there have been two TransCap revenue bonds authorized by the Legislature.

The \$50 M (million) TransCap revenue bond for highway reconstruction, which was authorized by the 123rd Legislature, LD 2324, was sold in November 2008 with an interest rate of 5.15%. The bond term was 15 years was AA rated by S&P. The annual \$5.6M revenue stream supporting this bond was created by reducing the Highway Fund portion of State Police funding from 60% to 49%. Annual bond debt service payments equal about \$4.8 M. The bond terms require a reserve fund, but after a year, we anticipate being able to access the difference between the revenue stream and debt service (about \$800K per year) for other highway capital purposes.

The \$160 M TransCap revenue bond for bridge construction funded by an estimated \$15 M annual revenue stream generated from raising registration, title, and vanity plate fees. Reduced car buying habits may erode this revenue stream. MaineDOT's proposed FY10-FY11 Capital Work Plan (CWP) is based upon a proposed \$105 M TransCap revenue bond sale for bridge reconstruction. The remainder (\$55M) will be issued in FY12-FY13. This was "front-loaded" to get work out for the economy and to take advantage of favorable bid prices. The proposed bond term is 15 years. We anticipate an interest rate around 5%. The proposed sale date is July 2009. The anticipated annual debt service for this first \$105 M TransCap bridge revenue bond is about \$10M per year. The bond terms require a reserve fund, but after a year, we anticipate being able to access the difference between the revenue stream and debt service (about \$5M of one year) for other bridge capital purposes. After the second TransCap bridge revenue bond (est. \$55M) is sold around July 2011, we anticipate virtually the entire revenue stream to be used.

2. ***How much ARRA stimulus money has been expended in FY 09 and how much is planned for spending in the FY 10/11 biennium – by year and use?***

All formula highway ARRA funds (\$130.7M) will be obligated to about 75 project projects advertised or to be advertised for construction by the end of June 2009, a period of only 120 days for Congressional passage. Federal law required that 50% of the funds be obligated within that time. Again, the expedited schedule was pursued to stimulate the economy (create jobs now) and to take advantage of favorable bid prices. It also positions Maine well for any possible redistribution of federal funds not used by other states, if any. Actual expenditures to date equal about \$9 M, and future expenditures depend upon project completion schedules, but the vast majority of the funds will be billed this season and early next. Most importantly from a contractor's perspective looking for a project, all of this money will have been used by the end of this June, and none is available for FY10-FY11.

3. *Is additional GARVEE borrowing planned in the upcoming biennium and, if so, how much and for what uses, per year?*

Yes. Our Capital Work Plan (CWP) and the Governor's Highway Fund Budget are based upon a \$50M GARVEE for FY10-FY11. This will be the third \$50M GARVEE. As required by law, it will be used for projects having a useful life of at least 20 years. This means heavy highway reconstruction or bridges. Actual project selection is dependent upon the results of pending budget and bond discussions.

4. *Does the committee's proposed FY 10/11 budget assume a level of new general obligation bonding and, if so, how much and when is it budgeted?*

Our CWP and the Governor's Highway Fund Budget are based upon the Governor's general obligation transportation bond proposal of about \$127 M, which includes \$75M for highways and bridges. This \$75M highway G.O bond component is proposed to be \$60 M HF and \$15M GF. The pending HF budget (LD 333) includes sufficient debt service for the \$60M HF G.O. bond portion, scheduled to be sold in two equal installments: \$30M in FY10 and \$30M in FY11.

5. *How much money is anticipated to be received from the proposed 5 cents/gallon increase in the gasoline/diesel fuel tax?*

Only Maine Revenue Services can definitely answer this question. However, MaineDOT estimates that the 5 cent proposal contained in LR 2008 will generate an about \$74 M to the Highway Fund and \$6 M to the TransCap Trust Fund. Although bill language and allocations are still being drafted, it is our understanding that the Transportation Committee has proposed that all allocations be for highway system capital purposes. More specifically, \$7M to the municipalities for their statutory, "off the top" Urban Rural Initiative Program (URIP, formally local road assistance), another \$5 to the municipalities to eliminate the proposed \$5M in bonding of URIP, about \$44M to fund about 1,100 miles maintenance paving, and \$24 M (\$18M-HF, \$6M-TransCap) to restore cuts to the highway and bridge capital program caused by the continuing erosion of Highway Fund revenues.

6. *If a bond question (2 parts) of \$10 million - \$15 million from the General Fund and \$20 million - \$40 million from the Highway Fund went to the voters this November, and, if approved, was all scheduled for issuance in June 2010, would this infusion of capital funds reduce, or eliminate, the need for any additional (beyond indexing) gas/diesel tax increase in the upcoming biennium?*

As noted above, the MaineDOT CWP is based upon the G.O., TransCap and GARVEE bond amounts noted above. Sound fiscal principles dictate that certain light capital work with an estimated useful life of less than 10 years – most notably Maintenance Surface Treatment (MST) paving – should not be paid with bond funds. Doing so is like taking a 10 year loan out on a car that will last only 6 years. Sometimes known as "skinny-mix", the MST program is much-demanded and keeps bad roads passable each year. To avoid major traveler impacts and complaints, the State should be doing about 1,200 miles every two years. With the revenue increase, we can meet that goal. Without it, depending upon the result of pending legislative acts, MaineDOT estimates that the State will have funding to do

only about 600 miles (half the goal). Depending upon revenue trends, it is possible the MST program may have to be eliminated.

Whether the \$30 to \$55 M G.O. bond indicated in the question would eliminate the need for a fuel tax increase is a policy question. Obviously, it provides no assistance to cash flow this year.

Transportation need requires a much bigger discussion than contemplated by this format. If the House Republican caucus would like a broader need discussion, with charts, graphs, production trends, etc, please let us know. I have attached a stacked bar chart as an attempt to introduce the context of that discussion.